

AR31

ORCHAN MINES LIMITED

ANNUAL REPORT 1975

ORCHAN MINES LIMITED

HEAD OFFICE: Suite 4500, Commerce Court West,
Toronto, Ontario M5L 1B6

MINE OFFICE: Matagami, Quebec

DIRECTORS

R. A. CRANSTON	J. P. DOLAN
MICHEL C. DUMAS	WILLIAM JAMES
W. S. ROW	D. E. G. SCHMITT
J. H. STOVEL	

OFFICERS

J. P. DOLAN	- - - - -	<i>Chairman</i>
D. E. G. SCHMITT	- - - - -	<i>President</i>
WILLIAM JAMES	- - - - -	<i>Vice-President</i>
L. J. TAYLOR	- - - - -	<i>Secretary</i>
E. K. CORK	- - - - -	<i>Treasurer</i>
B. C. BONE	- - - - -	<i>Assistant Treasurer</i>
V. H. K. SCOTT	- - - - -	<i>Comptroller</i>
J. M. SLACK	- - - - -	<i>General Manager</i>

TRANSFER AGENT AND REGISTRAR: THE STERLING TRUSTS CORPORATION, Toronto, Ontario

ANNUAL MEETING: April 20, 1976, 11:30 a.m. Toronto Time, Royal York Hotel, Toronto, Ontario

An English or French edition of this Report may be obtained from the Head Office of the company.

On peut se procurer la version française ou anglaise de ce rapport en en faisant la demande au siège social de la compagnie.

DIRECTORS' REPORT TO THE SHAREHOLDERS

This 23rd Annual Report includes a summary report of operations, development and exploration at the mine sites by the Manager, Mr. J. W. Jordan, along with the consolidated balance sheet as at December 31, 1975, the consolidated statement of operations for the year, and the report of the auditors. One interim dividend of 8¢ per share was paid in the first quarter as compared to four dividends totalling 46¢ in 1974. Dividend payments from the beginning of operations in 1963 to date have totalled some \$16,333,900 or \$2.69 per share.

Labour turnover and productivity improved as the year progressed and tonnages of ore produced from the Orchan and Garon Lake Mines were higher than for the previous year. However, depressed markets for zinc and copper and higher costs of production reduced earnings to \$2,189,000 or 36¢ per share compared to the record 85¢ per share in 1974. Commitments to participate in the expansion of the Canadian Electrolytic Zinc reduction plant and to prepare the Norita Mine in Matagami for production added \$4.45 millions in capital and preproduction expenditures. Product inventory in the form of concentrates and metals increased by \$6.8 millions, and required bank loans and short-term borrowings in the amount of \$6 millions. Under these circumstances the suspension of dividend payments since March 1975 will continue until the cash position is substantially improved.

The average grades of ores mined were lower than average reserve grades but production of zinc and copper in concentrates was respectively some 15% and 20% higher than in 1974 due to higher tonnages treated. All of the zinc concentrate was processed to metal at C.E.Z. in Valleyfield, Quebec and the copper concentrate was shipped to Noranda, Quebec for smelting. Prices received for zinc averaged about 4% higher than in 1974 but, because of the severe production cutback at C.E.Z., the revenue from zinc was lower by \$910,000. The average price for copper was 22% lower than in 1974 and revenue was down by \$788,000.

Mine operating costs were within plan but some 13% higher than in 1974 for a 17% increase in total tonnage of ores treated. Depreciation on mining plants and the concentrator was adjusted to reflect an extended life for the Orchan mine, where proven ore reserves at Dec. 31, 1975 were 1,103,560 tons averaging 8.7% zinc and 1.1% copper, and to reduce the Garon Lake plant, where mining was terminated, to minimum or salvage value. Although some 50,000 tons of drill indicated undeveloped copper bearing material remained at Garon Lake, with some possibility for extension to depth, current economic conditions and metal prices do not justify further work. Development of the Radiore No. 2 Mine, of wholly owned Bell Allard Mines, was suspended to await higher copper prices.

The sinking and equipping of the Norita Mine shaft was completed, lateral development advances reached ore zones on three levels, and a stockpile of development ore was available for treatment in the Orchan mill beginning in January.

Canadian Electrolytic Zinc

The sharp decline in demand for zinc led to voluntary cutbacks and the plant operated at 75% of pre-expansion capacity. Production for the year was 117,000 tons of zinc and 401,000 pounds of cadmium. Year-end stocks of finished metal were 39,095 tons of zinc and 556,000 pounds of cadmium. Unit costs increased 45% due to the decrease in production and the increases in wages, fuel and reagents.

The 220 tons of zinc per day expansion project, delayed about six months because of construction labour problems, was substantially completed with certain areas having been run in and improvements in zinc extraction already obtained. The final cost of modernizing and expanding will be in the order of \$61 millions. Effective January 1, 1976, and pursuant to agreement, Orchan's ownership changed from 18.75% of the 140,000 tons per annum plant to 15.83% of the expanded plant, the capacity of which is rated at some 225,000 tons of zinc metal production per annum.

St. Lawrence Fertilizers

The long strike which began May 1, 1974 ended in February 1975, by which time the peak prices in this highly cyclical industry had passed. The Company was caught between higher labour and raw material costs and declining prices, which resulted in a net loss of \$193,000 for the year.

General Smelting

The company's asset is a 40% interest in Federated Genco Limited which produces secondary aluminum for which the sales outlook is reported encouraging; and zinc dust for which sales remain depressed. Orchan's share of General Smelting's 1975 earnings was \$95,000.

Zinc

The fall in demand for zinc was particularly sharp due to its heavy dependence on automobile sales and an extreme inventory shift back to producers. There were substantial production cuts by many Western World producers and production fell some 600,000 tons to 4.2 million tons. Consumption was down 1.2 million tons to 3.8 million tons.

While London Metal Exchange quotations were substantially reduced from the excessive premiums reached in 1974, producer quotations in the U.S.A. and Canada held at 39¢ and 37¢ respectively until January 1976 when the U.S. price was reduced to 37¢. The overseas producer quotation was adjusted in September from £360 to £390 to reflect the declining value of sterling, and subsequently in December to \$795 U.S. per metric ton due to further sterling uncertainty.

Business recovery in 1976 is expected to reduce producer inventories and generally firm the market.

Copper

World demand for copper declined as consumption fell 16% to 6.1 million tons and year-end stocks rose 700,000 tons to 1,500,000 tons. In the fourth quarter consumption began to improve in the U.S.A. where there was some increase in house construction and a sharp climb in automobile sales. However, noticeably stronger demand in Japan and Europe will be necessary before stock accumulations on commodity exchanges will reverse.

L.M.E. prices moved progressively downward in 1975 reflecting the poor demand situation and despite the sharp decline in sterling in the autumn. The December level of 51½¢ per lb. was below the cost of production at many mining operations. The producer price for cathodes was 63¢ per lb. in the U.S.A. at year end and 62¾¢ in Canada.

General

A modest but aggressive exploration program was continued in northwest Quebec. With some improvement in general economic conditions and world metal markets expected late in 1976, and a reasonable resource tax policy in Quebec, the work now underway should serve eventually to extend the life of this mining and milling organization well beyond the term indicated by the currently remaining proven ore reserves.

The conscientious efforts and the loyal co-operation of the Manager, the staff and all employees throughout the past year for the continuation of this going concern are acknowledged and much appreciated.

On behalf of the Board,

J. P. DOLAN,
Chairman.

Toronto, Ontario,
February 13, 1976.

D. E. G. SCHMITT,
President.

MINE MANAGER'S REPORT

To the President and Directors:

This report summarizes operations at the minesites for the year ended December 31, 1975.

Production

Ores produced from the Orchan Mine and from the Garon Lake Division were treated in the concentrator at an average rate of 1,155 tons per day. Production from the Orchan Mine totalled 230,937 tons with grades averaging 7.22% zinc and 0.98% copper. Metal recoveries in concentrates were 87.56% and 82.79% respectively. In addition, 190,867 tons of ore were produced from the Garon Lake Division averaging 1.55% zinc and 1.46% copper. Recoveries were 64.28% and 86.66% respectively.

The following tabulation presents the consolidated production statistics for the past two years.

		1975	1974
Ore treated	— dry tons	421,804	364,031
Zinc concentrate	— dry tons	31,655	27,155
Zinc contained in concentrate	— pounds	32,979,474	28,446,030
Copper concentrate	— dry tons	16,727	14,053
Copper contained in concentrate	— pounds	8,541,354	7,112,070
Silver contained in concentrate	— ounces	65,800	58,397
Gold contained in concentrate	— ounces	1,041	997

Ore Reserves — January 1, 1976

During the year, economic reserves at the Garon Lake Division were exhausted and proven reserves at the Orchan Mine declined by 247,190 tons to:

	Tons	% Zinc	% Copper	Ounces/Ton Silver	Gold
Orchan Mine	1,103,560	8.7	1.1	0.9	0.01

Drill indicated reserves, including allowance for dilution, were:

Norita Division	1,965,307	6.4	0.6	0.9	0.01
Radiore #2 Division	153,340	1.0	2.0	0.2	0.01

Underground

	Orchan	Garon Lake	Norita	Radiore #2	1975 Total	1974 Total
Advance — feet:						
Exploration and development	—	163	5,736	108	6,007	1,875
Shaft sinking	—	—	689	—	689	993
Stope preparation	4,348	469	609	—	5,426	9,921
Total	4,348	632	7,034	108	12,122	12,789
Diamond drilling — feet:	852	1,741	—	—	2,593	22,848

Garon Lake Division

Mining operations ceased at year end with all economic ore mined out.

Two surface diamond drill holes, totalling 1,018 feet, were drilled to test a geophysical conductor. No ore sections were encountered.

Radiore #2 Division (of Bell Allard Mines)

The ramp decline was completed in January 1975, and stope preparation suspended, pending improved copper prices.

Norita Division

Shaft sinking was completed in June at a depth of 1,682 feet. Seven level stations were established and excavations completed for the underground crusher and two pump stations. Mine development for ore passes and service ramp, as well as stope development, is in progress. At year end, some 4,500 tons of stope development ore was on hand, with milling scheduled to begin in January.

Bell Allard Mines Limited

Results from a surface diamond drill hole (450 feet) on the north group of claims were negative.

A Turam electromagnetic survey, covering 17 miles of lines, was conducted on the south group of claims. No significant conductors were encountered.

Area Exploration

Participation with Noranda Exploration Company, Limited continued on a surface exploration program on the Bell Channel and the Dumagami groups of claims between the Norita and Garon Lake properties. Four holes were completed totalling 3,349 feet. No significant ore intersections were encountered.

General

There has been a marked improvement in the labour situation. More available manpower and a decrease in turnover and absenteeism have resulted in increased productivity. Skilled tradesmen and experienced miners are still in short supply, however, this is partially offset by "on-the-job" training of inexperienced personnel.

I wish to express my appreciation to the Department Heads, Messrs. J. C. Aubertin, J. J. Bell, D. Thornham and D. Donaldson, and to all employees, for their excellent services throughout the year.

Respectfully submitted,

Matagami, Quebec,
January 7, 1976.

J. W. Jordan,
Manager.

ORCHAN MINES LIMITED

(Incorporated under the laws of Ontario)

CONSOLIDATED BALANCE SHEET — DECEMBER 31, 1975

(with comparative figures at December 31, 1974)

	1975	1974
ASSETS		
Current assets:		
Cash and short-term deposits	\$ 99,123	\$ 878,906
Marketable investments, at cost (quoted market value \$2,974,700 in 1975; \$2,502,000 in 1974)	3,079,084	3,079,084
Accounts receivable	270,801	269,531
Metals and concentrates on hand, in transit or due for settlement — at estimated net realizable value (note 1(b))	14,606,624	7,773,652
Stores and prepaid expenses, at cost	706,552	510,916
	<u>18,762,184</u>	<u>12,512,089</u>
Taxes recoverable (note 2)		773,425
Investments in and advances to other companies (note 1(a))	<u>2,033,191</u>	<u>1,769,501</u>
Fixed assets, at cost (note 1(c)):		
Land, buildings and equipment —		
Mine site	11,105,184	11,085,666
Zinc reduction plant	6,349,780	6,232,980
	<u>17,454,964</u>	<u>17,318,646</u>
Less accumulated depreciation	<u>14,431,627</u>	<u>13,503,004</u>
	3,023,337	3,815,642
Mining properties and claims, at cost		
less amounts written off (note 6)	1,077,077	1,122,321
Projects under construction	6,004,126	3,665,839
	<u>10,104,540</u>	<u>8,603,802</u>
Preproduction and deferred development expenditures, at cost less amounts written off (note 1(c))	<u>6,098,949</u>	<u>3,868,764</u>
	<u>\$36,998,864</u>	<u>\$27,527,581</u>
LIABILITIES		
Current liabilities:		
Due to bankers — demand loan unsecured	\$ 1,000,000	
Accounts payable (including \$913,092 payable to affiliated companies in 1975)	3,311,468	\$ 1,589,230
Term loan unsecured, due March 1976	5,000,000	
Taxes payable	626,886	1,528,620
	<u>9,938,354</u>	<u>3,117,850</u>
Taxes provided not currently payable (note 1(e))	<u>2,992,000</u>	<u>2,046,000</u>
Due on mining properties (note 3)	<u>990,000</u>	<u>990,000</u>
Shareholders' equity:		
Capital stock (note 9) —		
Authorized:		
6,499,000 Class A and Class B interchangeable participating shares of \$1 each		
1,000 common shares of \$1 each		
Issued:		
6,058,720 Class A and B shares	6,058,720	6,058,720
Less net discount	2,613,750	2,613,750
	<u>3,444,970</u>	<u>3,444,970</u>
Retained earnings	19,633,540	17,928,761
	<u>23,078,510</u>	<u>21,373,731</u>
	<u>\$36,998,864</u>	<u>\$27,527,581</u>
On behalf of the Board:		
J. P. DOLAN, Director		
D. E. G. SCHMITT, Director		

(See accompanying notes)

CONSOLIDATED STATEMENT OF OPERATIONS AND RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 1975
(with comparative figures for 1974)

	1975	1974
Revenue — from metals and concentrates (note 1(b))	\$17,712,194	\$19,265,276
Expense:		
Cost of production	12,618,402	10,488,115
Administrative expense	235,038	188,593
Depreciation (note 1(c))	977,677	1,148,776
Amortization of mining properties, preproduction and deferred development (note 1(c))	434,476	272,105
Interest (note 1(d))	305,678	
	14,571,271	12,097,589
Operating income	3,140,923	7,167,687
Investment income	555,854	446,473
Income before taxes	3,696,777	7,614,160
Income and production taxes (note 1(e))	1,507,300	2,484,300
Net income	2,189,477	5,129,860
Retained earnings:		
Opening balance	17,928,761	15,585,912
	20,118,238	20,715,772
Dividends	484,698	2,787,011
Closing balance	\$19,633,540	\$17,928,761
Earnings per share (note 1(c))	36¢	85¢

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 1975
(with comparative figures for 1974)

	1975	1974
Working capital, beginning of year	\$ 9,394,239	\$10,708,655
Source of funds:		
From operations —		
Net income	2,189,477	5,129,860
Depreciation	977,677	1,148,776
Amortization	434,476	272,105
Taxes provided not currently payable (note 1(e))	946,000	524,000
Loss on disposal of fixed assets	63,179	13,627
Share of earnings less dividends of associated companies (note 8)	(1,387)	(218,928)
	4,609,422	6,869,440
Taxes recovered (note 2)	773,425	
	5,382,847	6,869,440
Application of funds:		
Fixed assets — mine sites	51,383	352,043
— zinc reduction plant	2,557,458	194,708
Deferred preproduction and development	2,637,014	4,479,429
Increase in non-current taxes recoverable		487,070
Increase (decrease) in investments and advances (note 8)	222,703	(146,405)
Maturity of long-term debt		30,000
Dividends paid	484,698	2,787,011
	5,953,256	8,183,856
Net decrease in working capital	570,409	1,314,416
Working capital, end of year	\$ 8,823,830	\$ 9,394,239

(See accompanying notes)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1975

1. **Significant accounting policies**

(a) Basis of consolidation —

The consolidated financial statements include the accounts of the company and its subsidiaries, all of which are wholly-owned. The company has interests in unincorporated joint ventures and these are included in the financial statements on a line-by-line basis.

Investments in and advances to other companies are carried at cost adjusted by the company's equity in income or losses since the date of investment.

(b) Inventories —

Metals and concentrates on hand, in transit or due for settlement are recorded at estimated realizable value and other inventories at the lower of cost or market.

(c) Depreciation and amortization —

As a result of a re-estimation of the remaining life of the Orchan mine the company changed from depreciating mine site assets to December 31, 1976 to depreciating them to December 31, 1978. As a result of the change, depreciation charges are lower and earnings before tax are higher by \$396,500 or 6.5¢ per share (4¢ per share after tax) in 1975.

Mining properties and claims and preproduction and deferred development costs are being amortized on the unit of production basis.

At December 31, 1975 Orchan owns 18.75% of a zinc reduction plant and it is being depreciated to 1981. Effective January 1, 1976 new facilities under construction in 1975 will commence operation and depreciation in future years will be at 5% per annum, straight line. Effective January 1, 1976, Orchan's ownership share of the expanded zinc reduction plant will be 15.83%.

(d) Interest —

Generally interest expense is charged against income as incurred except interest on debt for major capital expenditure programs. In these circumstances interest is capitalized during the construction period.

(e) Income and mining taxes —

The company follows the deferred method of income and mining tax allocation. Deferred income and mining taxes result from claiming deductions for tax purposes (principally depreciation, preproduction and development expenditures, and mining properties and claims) in excess of amounts charged in the accounts.

2. **Bell Allard Mines Limited tax exemption claim**

Bell Allard Mines Limited, a subsidiary, received approval during 1975 of its application for exemption from income taxes on earnings for a three-year period commencing April 1, 1968, and tax assessments paid in that regard have been refunded, together with interest.

3. **Due on mining properties**

The \$990,000 due on mining properties is non-interest bearing and is payable proportionately to production of the first 2,000,000 tons of ore from a mine now being developed and scheduled to come into production in 1976.

4. **Capital expenditures projection**

Capital outlays during 1976 will be approximately \$1,700,000.

5. **Statutory information**

Total remuneration paid in 1975 to directors of the company consisted of directors' fees of \$11,150. Total remuneration of the five highest paid employees of the company (who are not directors or officers) was \$110,501 and pension benefits totalled \$8,032.

6. **Contingent liability**

In 1963 an action was commenced in the Superior Court of Quebec in which the Plaintiff requested the Court to declare the nullity of the mining concession and the patent therefore issued to Orchan Mines Limited (comprising the whole of the Orchan mining property) and to declare valid and legal the staking by him of certain mining claims covered by this mining concession. The company thereupon filed a defence and Inscription in Law, and since that time no further proceedings have been made by the Plaintiff. In the opinion of the company's solicitors, the action is ill founded.

7. **Anti-Inflation Legislation**

The company is subject to the Anti-Inflation Legislation with respect to prices, profit margins, compensation and dividends, but the effects on the company are not clear.

8. **Comparative figures**

Share of earnings less dividends of associated companies, included in 1974 as an increase in investments in the statement of changes in financial position, has been reclassified to conform with the method of presentation adopted in 1975.

9. **Capital stock**

Effective May 28, 1975 the company's authorized capital stock consisting of 6,500,000 shares of \$1 each was reclassified as follows:

Class A and Class B interchangeable participating shares of \$1 each	6,499,000
Common shares of \$1 each (unissued)	1,000
Total authorized	<u>6,500,000</u>

All shares then outstanding were reclassified as Class A shares.

The issued capital stock at December 31, 1975 is as follows:

Class A	5,849,119
Class B	209,601
Total	<u>6,058,720</u>

Class A and Class B shares are voting, interchangeable on a share for share basis and rank equally with respect to dividends and in all other respects. The only distinction between the two classes is that the directors may specify that cash dividends on Class B shares be paid first out of 1971 tax-paid undistributed surplus on hand and then out of 1971 capital surplus on hand (as those expressions are defined in the Income Tax Act of Canada), with the result that Class B dividends so paid will be less than the Class A dividends by the amount of tax paid thereon.

AUDITORS' REPORT

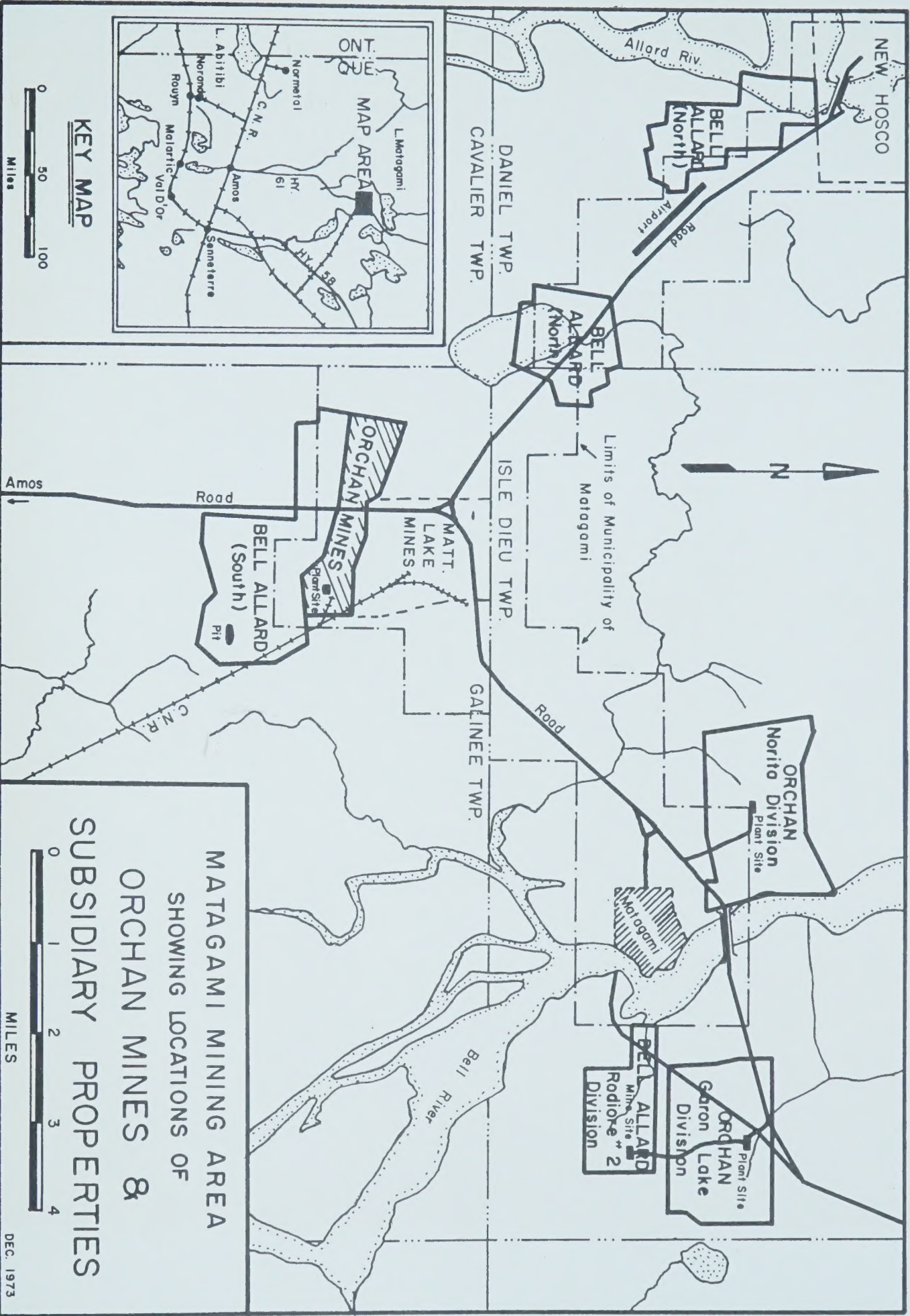
To the Shareholders of
Orchan Mines Limited:

We have examined the consolidated balance sheet of Orchan Mines Limited and its subsidiaries as at December 31, 1975, and the consolidated statements of operations and retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

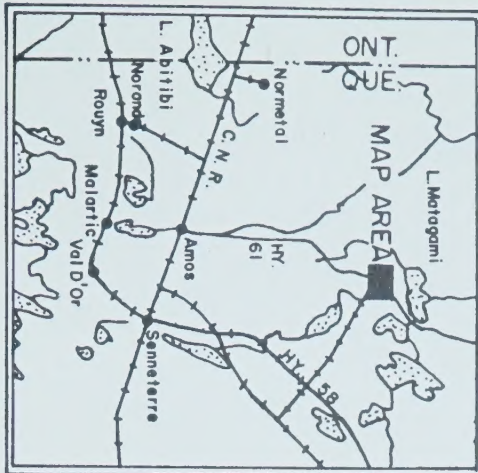
In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1975, and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
February 5, 1976.

CLARKSON, GORDON & CO.
Chartered Accountants



KEY MAP



MATAGAMI MINING AREA
SHOWING LOCATIONS OF
ORCHAN MINES &
SUBSIDIARY PROPERTIES

